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CENTRAL INTELLIGENCE AGENCY
OFFICE OF NATIONAL ESTIMATES

20 November 1967

STAFF NOTE (Internal ONE Distribution Only)

SUBJECT: Those Low Unemployment Statistics in Europe and Japan

This Note is intended for the information of the Board and we propose no distribution outside ONE. The subject has been discussed with analysts of OER, and the attached text generally reflects their views. It has not, however, been formally coordinated with OER.

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1. In recent years unemployment has consistently been a higher proportion of the labor force in the US and Canada than in most other advanced countries.* During the consideration of several NIEs [REDACTED]

[REDACTED] certain Board members have commented on this fact, and raised questions as to why small increases in already low levels of unemployment should cause any difficulty for the governments concerned. Abbot Smith suggested that a staff note on the subject might be useful.

* For most of the past decade, unemployment has ranged from 4 to 6.5 percent of the civilian labor force in the US and Canada. In the United Kingdom, France, West Germany, and Japan, the figures have been under 2 percent most of the time and have occasionally dropped below 1 percent. In Italy, unemployment has fluctuated since 1960 from about 2.5 to 4 percent, still appreciably lower than in the US and Canada. (In all cases, the statistics cover the same age group -- from 15 through 64 years.)

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How Good are the Figures?

2. Although the statistics on unemployment issued by most advanced nations are roughly comparable, they are not wholly so. In the US, Canada, Italy, and Japan, the figures are based on sample surveys of the labor force which are quite detailed and which are taken each month. Groups of persons are included who are often not covered in the unemployment statistics of other countries. In the UK, West Germany, and France, the figures include only workers who have registered at government unemployment offices. Some people who are out of work do not register because the inducements are insufficient.

3. There are other differences as well in the statistics of various countries, notably in the degree to which white collar workers, agricultural labor, and the self-employed are counted. In general, the European and Japanese figures are understated in comparison with American figures, but the degree of understatement is small. In fact as well as in statistics, unemployment has been substantially lower in Europe and Japan than in North America.

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The Reasons

4. One reason for this -- some economists say the major one -- is that the European and Japanese economies simply expanded faster than the American economy in the 1955-1966 period. The demand for goods was greater, and unemployment lower in consequence.

5. But variations in the structure and stage of development of the US, European, and Japanese economies also contribute to the differences in employment levels. In modern industry the number of openings for poorly educated manual laborers is steadily diminishing; such workers tend to be unemployable as well as unemployed. The US has a larger pool of these unfortunates, including a disproportionately high number of negroes, than most other advanced countries. Educational standards in Western Europe are more uniform than in the US and probably equip a higher proportion of people for work at least on the bottom rungs of modern industry.* In addition, there are more opportunities for unskilled labor in Europe because a larger portion of

* This and other generalizations contained herein about Western Europe apply less well to Italy than to the other European countries which are discussed.

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the European economy is still outside the industrial system. Within the industrial system itself, advanced technology has been introduced more rapidly in the US, further reducing the jobs available to unskilled labor.

6. European industry has a stronger tradition of paternalism, and is typically more willing than American industry to keep people working when there is not enough to do. There is thus more "underemployment" than in the US, even in areas where technological advance makes possible a reduction of the work force. The outdated craft and apprentice system, which is still prevalent in small and medium European industry, is also a form of underemployment which provides work for more semi-skilled laborers than is the case in the US. Europe has historically had an abundance of manual labor, while the US and Canadian economies have grown up under conditions of relative labor scarcity which have encouraged greater efforts to minimize the use of labor in achieving any given level of output.

7. In Japan, industrial management is probably even more paternalistic than in Europe and less inclined to lay workers off in times of recession. And more of Japanese industry

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consists of small family concerns in which all members of the household are employed, or at least underemployed. Fifteen percent of Japan's industrial workers work in establishments employing less than ten persons. In the fairly uncommon cases where workers are laid off by Japanese industries, many return to family farms to await better times rather than join the ranks of the urban unemployed.

The Political Problem of Unemployment

8. It is probably axiomatic that an increase of unemployment will cause political concern in any industrialized nation. Continuation of unemployment at a level which remains steady for some years, however, is less likely to cause trouble. Crudely put, one reason the US endures a 4 to 5 percent rate of unemployment fairly easily is that the government, the society, and the economy are used to it. But the governments of Great Britain, France, West Germany, and Japan, having had lower rates for some time, would definitely encounter political difficulties at home if their unemployment rose to, say 3 percent.

9. There are several other reasons why relatively low levels of unemployment are a stickier political problem in Europe than in the US. The brunt of unemployment in this country, as already

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mentioned, falls upon badly educated negroes who have migrated to urban centers, and on the poor (both negro and white) in chronically depressed areas such as Appalachia. These groups have had little political influence, though they are now beginning to acquire some. In Europe, unemployment has generally occurred in industries with strong unions which have long played a political role with some effectiveness. European labor has never accepted the "laws" of capitalism and free enterprise to the extent its American counterpart has, and has never regarded unemployment as a natural or healthy aspect of the market economy.

10. For years European governments have been more accustomed than American governments to exercising control over various aspects of economic life, and they are now coming to regard unemployment as only one of several interrelated economic problems for which the state should bear some responsibility. They are giving increased consideration to governmental "incomes policies," under which the state would influence or control wages, prices, and total demand, in order to achieve some kind of equity in incomes, prevent inflation, keep the economy growing at an even pace, and maintain high employment. No

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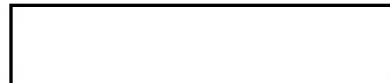
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European government has yet introduced the controls which a comprehensive incomes policy would require, but the US government would be unlikely even to consider such state controls at present.

The Future

11. Over time, the differences in unemployment rates between the US and other advanced countries will probably diminish. The advance of technology as well as competition for world markets may gradually force both European and Japanese industries to crack down on practices which lead to underemployment. They may become less paternalistic in other ways as well. The trend away from small family firms to larger corporations should reduce underemployment in any case. There may also be changes in the US (though such changes are not the point of this paper). Training and educational programs may gradually reduce the pool of unemployables. The political voice of this group, especially the negroes within it, will probably become stronger. And a greater degree of government intervention to solve various economic problems -- including that of unemployment -- may become acceptable to the American body politic.



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